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TAGS: ECON EINV EFIN SA
SUBJECT: ANALYST UPBEAT ON SAUDI ECONOMY BUT FAMILY DISPUTE
REVERBERATES THROUGH REGION

REF: RIYADH 1340

Classified By: Deputy Chief of Mission Susan L. Ziadeh for reasons 1.4 (b) and (d)

Analyst Upbeat About Saudi Economy Prospects...

¶1. (SBU) On October 19, Econoff met with Paul Gamble, head of research at local investment house Jadwa, to discuss the general state of the Saudi economy. Gamble said that there were still many indicators the economy had not fully turned a corner, including the continued contraction of commercial credit (in 6 of the past 8 months). There were however, also some signs that a recovery was underway. Of the nine Saudi banks that have released their third quarter results, all were profitable, six of them more so than during the third quarter of last year. He said the government continues it's massive infrastructure investment program and independent government agencies such as the pension funds have supplemented the central government budget with additional spending (the central bank reports on these independent agencies' drawdown of their assets on a monthly basis).

...But Remains Concerned About Family Dispute

¶2. (C) Despite this generally optimistic outlook, Gamble expressed concern about how the government is handling the commercial dispute between, and loan defaults by, the Saad Group and AH Al-Gosaibi and Brothers (AHAB). The recent deal in which the Saad Group settled some of its domestic debts at $0.90 on the dollar (some reports indicate $0.85) has, according to Gamble, resulted in acrimony in international banks who were left out of the deal. While resulting in a short-term surge in the Saudi stock market (up 10 percent since the end of August after remaining stagnant between May and August), he fears it will lead to a significant curtailment of international lending to Saudi businesses. He further said that given the size of the infrastructure projects the Kingdom contemplates in the coming years, international lending is key to continued economic growth. At a recent conference, the president of the second largest bank in Jordan told Gamble he would not lend to a Saudi business again, and that the central bank of Jordan had directed Jordanian banks exposed to the Saad Group or to AHAB to take out provisions of 100 percent of their loans to these entities.

Comment

¶3. (SBU) While the Jordanian banker's comments may be a little intemperate, they are a good illustration of the concern we are hearing from a variety of local and regional bankers about the lack of transparency about how this commercial dispute is being resolved. We expect government-funded projects will continue to get the financing they need, although there may be limits to how much more the SAG could accelerate them. International lending to private companies may lag the rest of the economy until banks better understand how potential future disputes would be resolved. End comment.
SMITH